

Educomp Solutions

Leader in digital education content business

Educomp is a market leader in digital content business riding the early mover advantage in a vast domestic education market. Despite witnessing a healthy CAGR of ~70% over FY08-12, headroom to grow remains substantial with only 5% of the market (number of schools) catered by its flagship product 'Smart Class'. Continued government impetus on education as seen in 25% average increase in budgetary allocation (FY12-13) to national education programs also bodes well for the industry as whole. With presence in wide spectrum of educational/training programs like pre-schools, schools, post graduation, online tutoring, vocational training, Educomp is well entrenched player in one of the fastest growing domestic sectors.

Strategic initiatives to help address traditional concerns

Pricing & volume pressures due to heightened competition (due to lower entry barriers) as well as high capex needs are believed to be largely responsible for the de-rating of the company. We believe, while these issues currently prevail, various strategic initiatives undertaken should help address these going forward. These include prudent arresting price pressure in Smart Class business, increased focus on WC management, exiting non-core business (consolidation) and adopting asset light approach. Initial improvement signs in terms of reduced capex over last 4-5 quarters (at Rs0.5bn v/s Rs2.44bn in Q1 FY12), reduction in inventory cycles and improvement in pricing of 'SmartClass' business. High capex and resultant asset liability mismatch is also expected to be addressed to a certain extent by recent capital infusion (~US\$155mn) and receivable securitisation (Rs1bn securitized in current quarter). A possible correction in domestic interest rates (leading to lower securitization costs) should further help improve cash flows.

Improving business fundamentals to support better valuations ; BUY

As Educomp treads the path of consolidation in a bid to improve its traditional issues, we believe fundamentals of its flagship business School Learning Solutions (SLS) should improve credibly. Introduction of new products (Lab products, tablets) and refocusing on SLS business towards revenue per school should also lend support for the same. On the other hand its K-12 business on the back of its asset light approach and improving age profile is expected to support growth. With expected improvement in business, immense growth headroom we believe valuations at 10.6x FY12 earnings to improve going forward. We recommend BUY.

Financial summary

	FY09	FY10	FY11	FY12
Revenues (Rs m)	6,371	10,395	13,509	14,913
yoy growth (%)	122.0	63.2	30.0	10.4
Operating profit	3,062	4,847	5,568	4,132
OPM (%)	48.1	46.6	41.2	27.7
Reported PAT (Rs m)	1,329	2,758	3,367	1,355
yoy growth (%)	89.0	107.5	22.1	(59.7)
EPS (Rs)	15.4	29.0	35.2	14.1
P/E (x)	9.8	5.2	4.3	10.6
EV/EBITDA (x)	6.5	3.5	4.0	6.0
Debt/Equity (x)	1.7	0.2	0.4	0.4
RoE (%)	31.6	16.7	15.5	5.4

Source: Company, India Infoline Research

Rating: BUY

Target: Rs180

CMP: Rs150

Upside: 20%

Sector: Education

Sector view: Neutral

Sensex: 19,032

52 Week h/l (Rs): 263 / 128

Market cap (Rscr) : 1,772

6m Avg vol ('000Nos): 2,263

Bloomberg code: EDSL IB

BSE code: 532696

NSE code: EDUCOMP

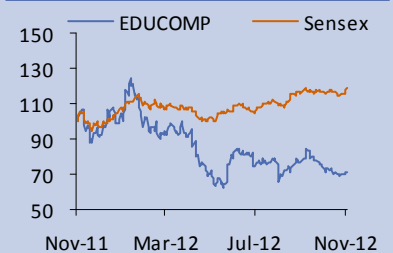
FV (Rs): 2

Price as on Nov 29, 2012

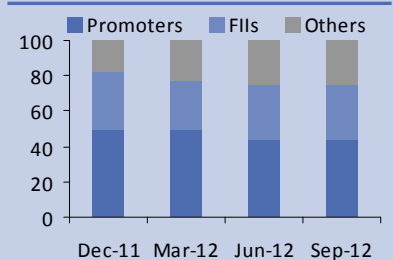
Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth		■			
Cash Flow		■			
B/S Strength		■			
Valuation appeal				■	
Risk			■		

Share price trend



Share holding pattern



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After receiving two reputed awards for being the 'Best Broker' in 2011, IIFL has now bagged the Best Broking House with Global Presence in 2012.

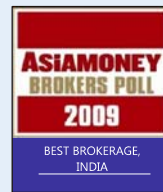
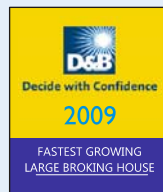
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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